

# **Wi2Wi Corporation**

## **Consolidated Financial Statements** **Years Ended December 31, 2013 and 2012**

## **Wi2Wi Corporation**

---

Consolidated Financial Statements  
Years Ended December 31, 2013 and 2012

# Wi2Wi Corporation

## Contents

---

<b>Independent Auditor's Report</b>	3 - 4
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	6
Consolidated Statements of Loss and Comprehensive Loss	7
Consolidated Statements of Changes in Shareholders' Deficit	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	11 – 32

## **Independent Auditor's Report**

To the Board of Directors and Shareholders  
Wi2Wi Corporation  
Montreal, Canada

We have audited the accompanying consolidated financial statements of Wi2Wi Corporation (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of loss and comprehensive loss, changes in shareholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wi2Wi Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Emphasis of Matter Regarding Going Concern***

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 4 to the consolidated financial statements, the Company's recurring losses, working capital deficit and total shareholders' deficit, among other factors, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

BDO USA, LLP

May 7, 2014

## **Consolidated Financial Statements**

---

# Wi2Wi Corporation

## Consolidated Statements of Financial Position

(In thousands of U.S. dollars)

December 31,	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 15	\$ 32
Trade accounts receivable, net of allowance for doubtful debt of \$25 as of December 31, 2013 and 2012 (Note 8)	79	453
Inventories (Note 9)	305	158
Deferred inventory costs	42	117
Escrow funds receivable (Note 13)	500	-
Investment in Legend Oil and Gas (Note 11)	820	-
Funds held on sale of Legend Oil and Gas shares (Note 11)	147	-
Prepaid expenses and other current assets	197	197
Total current assets	2,105	957
<b>Property and Equipment, Net (Note 10)</b>	82	90
<b>Total Assets</b>	\$ 2,187	\$ 1,047
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 937	\$ 725
Senior bridge loans (Note 12)	150	630
Note payable to International Sovereign Energy Corp (Note 12)	-	300
Note payable (Note 12)	500	-
Promissory notes (Note 12)	510	-
Note payable escrow (Note 13)	500	-
Payable to preferred shareholders	967	-
Accounts payable to related parties (Note 13)	125	1,240
Accrued liabilities (Note 14)	1,595	514
Deferred revenue	67	182
Total current liabilities	5,351	3,591
Warrant liability (Note 17)	-	67
<b>Total liabilities</b>	5,351	3,658
<b>Equity (Deficit)</b>		
Common shares – no par value (Note 16)	23,711	17,528
Contributed surplus	3,224	2,569
Accumulated deficit	(30,099)	(22,708)
Total shareholders' deficit	(3,164)	(2,611)
<b>Total Liabilities and Shareholders' Deficit</b>	\$ 2,187	\$ 1,047

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

/s/ Dr. Hans Black, Director

/s/ Mr. Sharad Mistry, Director

## Wi2Wi Corporation

### Consolidated Statements of Loss and Comprehensive Loss

*(In thousands of U.S. dollars, except net loss per share)*

<i>For the Years Ended December 31,</i>	2013	2012
Revenues	\$ 3,748	\$ 3,262
Cost of Revenues	2,278	2,153
Gross Profit	1,470	1,109
Operating Expenses (Note 19)		
Research and development	1,000	1,166
Selling, general and administrative	4,762	3,897
Share Listing Expense (Note 3)	2,987	-
Total Operating Expenses	8,749	5,063
Loss from Operations	(7,279)	(3,954)
Interest expense (Note 12 and 17)	112	152
Loss before Income Taxes	(7,391)	(4,106)
Provision for income tax (Note 20)	-	-
Net Loss and Total Comprehensive Loss	\$ (7,391)	\$ (4,106)
Net loss per share, basic and diluted	(0.09)	(0.07)

*See accompanying notes to consolidated financial statements.*



# Wi2Wi Corporation

## Consolidated Statements of Changes in Shareholders' Deficit (In thousands of U.S. dollars, except share data)

	Common Shares		Preferred Shares	Contributed Surplus	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
<b>Consolidated Balances, December 31, 2011</b>	264,216,629	\$ 14,745	2,700,000	\$ 2,506	\$ (18,602)	\$ (1,351)
Issuance of common stock warrants to lenders	-	-	-	87	-	87
Issuance of common shares for cash	14,900,000	1,490	-	-	-	1,490
Issuance of common shares related to proceeds received in prior year (Note 15)	6,000,000	600	-	(600)	-	-
Conversion of notes to common shares	5,250,000	525	-	-	-	525
Issuance of common shares for broker fees associated with equity fundraising	250,000	-	-	-	-	-
Issuance of common shares upon exercise of stock options	3,000,000	168	-	-	-	168
Conversion of preferred shares to common	139,600	-	(200,000)	-	-	-
Share-based compensation expense	-	-	-	576	-	576
<b>Net loss and comprehensive loss</b>	-	-	-	-	(4,106)	(4,106)
<b>Consolidated Balances, December 31, 2012</b>	293,756,229	17,528	2,500,000	2,569	(22,708)	(2,611)
Cancellation of Wi2Wi Preferred Shares	-	-	(2,500,000)	-	-	-
Conversion of 293,756,229 Wi2Wi Common Shares for 64,384,296 shares of International Sovereign Energy Corp. (ISE) in connection with Plan of Arrangement between Wi2Wi Corporation (Wi2Wi) and ISE on January 28, 2013 (Note 3)	(293,756,229)	5,875	-	-	-	5,875
	64,384,296	-	-	-	-	-
Common Shares of International Sovereign Energy Corp.	16,096,084	-	-	-	-	-
Issue of Preferred shares to ISE shareholders	-	-	16,096,084	-	-	-
Issue of Common Shares (Note 16)	1,260,000	293	-	22	-	315
Shares issued upon exercise of employee options	63,926	15	-	-	-	15
Stock-based compensation expense	-	-	-	435	-	435
Reversal of warranty liability due to change in terms of warrants (Note 17)	-	-	-	67	-	67
Issuance of broker warrants for services in connection with Plan of Arrangements between Wi2Wi AND ISE (Note 17)	-	-	-	131	-	131
Net Loss and Comprehensive Loss	-	-	-	-	(7,391)	(7,391)
<b>Consolidated Balances, December 31, 2013</b>	81,804,306	\$ 23,711	16,096,084	\$ 3,224	\$ (30,099)	\$ (3,164)

See accompanying notes to consolidated financial statements.

# Wi2Wi Corporation

## Consolidated Statements of Cash Flows (In thousands of U.S. dollars)

<i>For the Years Ended December 31,</i>	2013	2012
<b>Operating Activities</b>		
Net loss	\$ (7,391)	\$ (4,106)
Adjustments for non-cash items:		
Depreciation and amortization	51	47
Share-based compensation	435	576
Share listing expense	2,987	-
Change in fair value of warrant liabilities	-	(5)
Amortization of warrants	-	83
Changes in assets and liabilities:		
Accounts receivable	373	455
Inventories	(147)	275
Deferred inventory costs	75	176
Prepaid expenses and other current assets	-	(135)
Accounts payable	212	(552)
Accounts payable to related parties	(1,115)	730
Accrued liabilities	1,081	89
Deferred revenue	(115)	(394)
<b>Net Cash Used in Operating Activities</b>	<b>(3,554)</b>	<b>(2,761)</b>
<b>Cash Flows from Investing Activities</b>		
Additions to property and equipment	(43)	(16)
<b>Net Cash Used in Investing Activities</b>	<b>(43)</b>	<b>(16)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from (repayment of) bank borrowings	-	(329)
Proceeds from (repayments of) bridge loans	(480)	1,155
Proceeds from note payable to ISE	2,720	300
Proceeds from note payable to related party	500	-
Proceeds from note payable to Norton Rose	500	-
Proceeds from promissory notes	510	-
Escrow receivable	(500)	-
Exercise of stock options	15	168
Issuance of common shares for cash	315	1,490
<b>Net Cash Provided by Financing Activities</b>	<b>3,580</b>	<b>2,784</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(17)</b>	<b>7</b>
<b>Cash, beginning of period</b>	<b>32</b>	<b>25</b>
<b>Cash, at end of period</b>	<b>\$ 15</b>	<b>\$ 32</b>

## Wi2Wi Corporation

### Consolidated Statements of Cash Flows

*(In thousands of U.S. dollars)*

---

**Supplemental Disclosure of Cash Flow Information:**

Interest paid	\$	111	\$	67
Issuance of 250,000 shares issued for broker fees	\$	-	\$	25
Non cash investing and financing activities:				
Conversion of bridge loans into common stock	\$	-	\$	525
Issuance of warrants classified as deferred financing costs	\$	-	\$	87
Issuance of commons shares related to proceeds received in prior year	\$	-	\$	600

*See accompanying notes to consolidated financial statements.*

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### 1. Nature and Description of the Company

Sargeant Bay Capital, Inc., a Canadian entity, was incorporated pursuant to the Canadian Business Corporations Act on July 9, 2004. On December 12, 2005, Sargeant Bay Capital, Inc. changed its name to Wi2Wi Corporation and became the legal parent of its wholly owned operating subsidiary, Wi2Wi Inc., a Delaware company, through a reverse takeover transaction. Wi2Wi Inc., headquartered in San Jose, California, was incorporated on April 29, 2005 and was mainly inactive until it acquired the original equipment manufacturing (OEM) products division of Actiontec Electronics on October 1, 2005. Together, Wi2Wi Corporation and Wi2Wi Inc. constitute the Company.

The Company's fiscal year was October 1 through September 30 from inception through September 30, 2010. In November 2011, the Company changed its fiscal year end to December 31. The accompanying consolidated financial statements have been prepared for the 12 months ended December 31, 2013 and 2012.

The Company designs, manufactures and markets system in package and modular products for wireless applications worldwide. The Company's head office is located in San Jose, California.

### 2. Basis of Preparation

#### ***Statement of Compliance and Authorization***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 6.

These consolidated financial statements have been authorized for issue by the Board of Directors on May 7, 2014.

#### ***Basis of Presentation***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements include the financial statements of Wi2Wi Corporation and its wholly owned subsidiary, Wi2Wi Inc. All intercompany balances and transactions have been eliminated in consolidation.

### 3. Reverse Takeover of International Sovereign Energy Corp.

On July 6, 2012 the Company entered into an Arrangement Agreement pursuant to which International Sovereign Energy Corp. (ISE) acquired all of the issued and outstanding shares of the Company by way of a plan of arrangement under the Canada Business Corporations Act (the Transaction). Shareholders of Wi2Wi and ISE approved the Transaction in December 2012. The Transaction is considered a reverse takeover (RTO) under the policies of the TSX Venture Exchange (the TSXV) as the shareholders of Wi2Wi obtained control over ISE. It was subject to the approval of the Ontario Superior Court of Justice which was granted on January 28, 2013. It was also subject to approval by the TSXV and shareholders of both companies. The TSXV approval was granted on February 4, 2013 with trading commencing on February 5, 2013 under the symbol YTY.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

The RTO Transaction effectively resulted in shares being issued and Wi2Wi taking control of the consolidated entity with Wi2Wi identified as the accounting acquirer. ISE is the surviving entity. However Wi2Wi is considered to be the accounting acquirer as the Wi2Wi shareholders acquired a controlling 80% of the outstanding and issued common shares of ISE upon the completion of RTO. The surviving entity changed its name to Wi2Wi Corporation.

As a result of the RTO Transaction, the consolidated financial statements have been prepared as a continuation of the Company and as such:

- (a) the assets and liabilities of the Company are recognized and measured at their RTO Transaction carrying amounts;
- (b) the assets and liabilities of ISE are recognized and measured in accordance with their fair values on the date of acquisition;
- (c) the opening retained earnings and other equity balances reflect the Company's balances prior to the RTO Transaction
- (d) comparative figures reflect the assets, liabilities and equity accounts of the Company prior to the RTO Transaction.

ISE was historically engaged in the acquisition, exploration and production of petroleum and natural gas reserves but had ceased operating activities on the sale of its assets in 2011 and 2012.

For accounting purposes, the acquisition does not meet the definition of a business in accordance with the IFRS 3 "*Business Combinations*" as ISE had discontinued all of its prior business operations and its activities, prior to the RTO, were limited to the management of cash resources, investment and the maintenance of its listing. Accordingly, the Transaction has been accounted for as the issuance of shares by Wi2Wi for the net monetary assets of ISE in accordance with IFRS 2 "*Share-Based Payment*". Consideration, net of transaction costs, has been added to shareholders' equity.

The fair value of the consideration, calculated as \$5,875, is determined based on the percentage of ownership of the merged entity after the transaction that was transferred to shareholders of ISE upon completion of the Transaction. This value represents the fair value of the shares that Wi2Wi would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the transaction had taken the legal form of Wi2Wi acquiring 100% of the shares of ISE. The percentage of ownership ISE shareholders has in the combined entity is 20% after the consolidation of its existing 16,096,084 issued and outstanding common shares with the 64,384,296 newly issued shares of Wi2Wi held by shareholders as of January 28, 2013. The fair value of the consideration in the Transaction represents 20% of the estimated fair value of Wi2Wi shares of \$29.4 million based on the transaction price of the recent private placement sales of Wi2Wi common stock of \$0.10 per share before the amalgamation and conversion.

All securities convertible into common shares of Wi2Wi were exchanged or converted into an equivalent number of ISE securities in accordance with the conversion ratio. Of the 2,500,000 preferred shares of Wi2Wi indicated below, the conversion of 1,000,000 (Series A) shares is under dispute between members of the Wi2Wi Board of Directors and the holder of these shares, who was a former officer of Wi2Wi. The financial statements have been prepared assuming that the Series A preferred shares are not convertible and therefore are deemed cancelled. The 1,500,000 (Series B) shares have also been cancelled. The 200,000 (Series C) shares were converted into 139,600 common shares of Wi2Wi prior to completion of the Transaction and are included in "Common Shares".

The conversion ratio was 4.56 Wi2Wi common shares for each ISE common share (the Conversion Ratio). The Conversion Ratio resulted in the following securities as at January 28, 2012:

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

	Wi2Wi Before Conversion	New ISE After Conversion	Existing ISE	Total After Conversion
Common Shares	293,756,229	64,384,296	16,096,084	80,480,380
Preferred Shares	2,500,000	-	-	-
<b>Total Shares</b>	<b>296,256,229</b>	<b>64,384,296</b>	<b>16,096,084</b>	<b>80,480,380</b>
Warrants	11,225,000	2,460,249	-	2,460,249
Stock Options	47,891,666	10,496,698	1,535,000	12,031,698

In addition, 16,096,084 Preferred Shares were issued to holders of common shares of ISE upon the closing of the Transaction. Each Preferred share will automatically convert into common shares on the date that is five years and one day after the date such preferred shares were issued, based on an exchange ratio of one-millionth (0.000001) of a common share for each Preferred Share converted, a total of 16 common shares.

Upon the closing of the Transaction the Company issued 876,704 warrants (4,000,000 warrants pre-conversion) to its investment banker. The warrants have an exercise price of \$0.57 per the agreement (\$0.125 per share pre-conversion). The warrants vested immediately upon grant and expire in three years. The fair value of warrants was determined to be \$131 and is included in share listing expense.

Since the estimated fair value of the ownership interests in the combined company to be held by ISE shareholders exceeded the fair value of net assets being acquired by Wi2Wi and in accordance with IFRS 2, such excess of \$2,856 is recorded as a component of the total share listing expense as of January 28, 2013, and then transferred to deficit.

The computation of share listing expense is as follows:

Fair value of consideration for ISE ownership interest	\$ 5,875
Fair value of ISE net assets:	
Cash	3,279
Prepaid expense and deposits	64
Accounts payable	(324)
Investments	1,977
Payable to ISE shareholders	(1,977)
Total fair value of ISE net assets	3,019
Share listing expense	2,856
Fair value of warrants issued to investment banker	131
Total share listing expense	\$2,987

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### 4. Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The Company has experienced recurring losses and has a working capital deficit at December 31, 2013 and December 31, 2012 of \$3,246 and \$2,634, respectively. This, among other factors, raises substantial doubt about the ability of the Company to continue in existence as a going concern and the appropriateness of the use of the going concern assumption. Management's plans with regard to these matters are discussed below.

The application of the going concern basis is dependent on a number of factors, but ultimately on the Company's ability to generate future profitable operations. Management is of the opinion that sufficient working capital will be obtained from a combination of future cash flows from operations, bank borrowings and future equity raises to meet the Company's liabilities and commitments as they become payable. The Company will continue to be dependent on additional financing in the future until such time as the Company becomes profitable. There can be no assurances that such additional financing will be available or that the Company will ultimately achieve profitability. If the Company is unable to obtain an adequate level of financing, it will need to curtail planned activities and reduce costs. Doing so will likely have an unfavorable effect on the Company's ability to execute on the business plan. These matters raise substantial doubt about the ability of the company to continue in existence as a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets, the reported revenues and expenses, and the balance sheet classification used.

### 5. Significant Accounting Policies

#### ***Inventories***

Inventories are recorded at the lower of average cost or net realizable value. As a supplier of system in package and modular products, inventory cost consists of amounts paid to the Company's contract manufacturers for product that is drop shipped to customers or shipped to the Company's location in San Jose, California. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its gross margin.

The Company sells product directly to end customers as well as through distributors. Inventory at distributor locations is reported as deferred inventory costs and is recognized as cost of goods sold once the distributors have sold the product to a third party and revenue had been recognized.

#### ***Property and Equipment***

Property, plant and equipment are stated at cost. Depreciation and amortization are computed using the straight line method over estimated useful lives of three years for computer equipment and software, and five years for machinery and equipment and office furniture and fixtures. Useful lives and amortization methods are reviewed annually.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### **Impairment of Non-Financial Assets**

In accordance with IAS 36, *Impairment of Assets*, non-financial assets to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, the Company must estimate the difference between the carrying amount of the asset and the recoverable amount. That difference is the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment charges can be subsequently reversed if they no longer exist but cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in the prior years. No impairment charges have been recorded for any of the periods presented.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. All financial instruments are initially measured at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: fair value through profit and loss (FVTPL), held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

<b>Financial Instrument</b>	<b>Category</b>	<b>Measurement Method</b>
Cash	Loans and receivables	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank borrowings	Other liabilities	Amortized cost
Senior bridge loans	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Warrant liability	FVTPL	Fair value

Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The Company will assess at each reporting period whether a financial asset is impaired. An impairment loss, if any, is included in income or loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable. The amount of such a provision is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported on a net basis, such provisions are recorded in a separate allowance account with the loss being recognized within selling, general and administrative expenses in the Consolidated Statements of Loss and Comprehensive Loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Other liabilities are measured at fair value on initial recognition, net of transaction costs and subsequently at amortized cost using the effective interest rate method.

Financial instruments classified as FVTPL are measured at fair value on initial recognition and are subject to remeasurement at each balance sheet date with any changes in fair value being recognized in the Consolidated Statements of Loss and Comprehensive Loss.



# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

### ***Income Taxes***

The Company accounts for income taxes under IAS 12, *Income Taxes*, which requires an asset and liability approach to recording deferred taxes. Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable income is probable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

Management periodically reviews the Company's provision for income taxes and deferred tax assets and liabilities to determine whether the overall tax estimates are reasonable. When management performs its assessments, it may be determined that an adjustment is required. These adjustments, if required, may have a material impact on the Company's consolidated financial position and results of operations.

### ***Foreign Currency Translation***

The Company's presentation and functional currency is the US dollar. The functional currency of the Company's self-sustaining foreign subsidiary, Wi2Wi Inc., is its local currency of US dollars.

There were no significant gains or losses arising from transactions denominated in currencies other than the functional currency for the periods ended December 31, 2013 and 2012.

### ***Revenue Recognition***

The Company generates revenue through direct sales to its customers as well as through distributors. In accordance with IAS 18, *Revenue*, the Company recognizes revenue when the following fundamental criteria are met: (i) the significant risks and rewards of ownership of the goods have transferred to the buyer; (ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company also sells products to distributors. The Company does not recognize revenue until its distributors have sold the product to a third party, and the right of return or price protection has lapsed.

### ***Research and Development***

Pursuant to IAS 38, *Intangible Assets*, research costs are expensed and development costs are capitalized as an asset if certain criteria are satisfied. The development costs incurred in the years ended December 31, 2013 and 2012, respectively, did not satisfy the criteria and therefore were expensed.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### **Share-Based Payments**

The Company has a stock option plan and issues stock options to directors, employees and other service providers. This fair value of options granted is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. All share-based remuneration is ultimately recognized as an expense in the Consolidated Statement of Loss and Comprehensive Loss with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs and the amount originally credited to contributed surplus are allocated to share capital. Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive loss is charged with the fair value of goods and services received.

Compensation costs attributable to stock options granted are measured at fair value at the date of grant and are expensed over the vesting period, using a graded vesting schedule, with a corresponding increase in contributed surplus.

### **6. New Accounting Policies**

On January 1, 2013, the Company adopted the following new standards and amendments that became effective for annual periods on or after January 1, 2013:

- i. IFRS 10, *Consolidated Financial Statements*, supersedes IAS 27, *Consolidation and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. This standard provides a single model to be applied in control analysis for all investees including special purpose entities.
- ii. IFRS 11, *Joint Arrangements*, divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.
- iii. IFRS 12, *Disclosure of Interests in Other Entities*, combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- iv. IFRS 13, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- v. IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no material impact on the Company's financial statements.
- vi. IAS 1, "Presentation of Financial Statements" was amended to introduce new terminology for the statement of income (loss) and comprehensive income (loss). The amendments required the Company to group other comprehensive income (loss) items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to comprehensive loss or other comprehensive loss.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

The Company adopted these standards on January 1, 2013 as required. The adoption of each of these standards did not have a material impact on the consolidated financial statements.

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

As of January 1, 2014, the Company will be required to adopt amendments to IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period.

As of January 1, 2014, the Company will be required to adopt IFRS Interpretations Committee ("IFRIC") 21 "Levies". IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs.

IFRS 9 will replace the guidance of IAS 39, "Financial Instruments: Recognition and Measurement." This standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans receivable. Financial assets will be classified into one of two categories: amortized cost or fair value. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

The Company is currently evaluating the impact of adoption of these amendments and interpretations and the effect on Company's financial statements has not yet been determined.

### **7. Critical Accounting Estimates and Judgments**

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Product Warranty***

The Company offers a standard one-year product replacement warranty. The Company assesses the level and materiality of return material authorizations and determines the estimated returns for defective products at the time revenue is recognized. On occasion, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time the decision to accept the return is made. As a consequence of the Company's standardized manufacturing processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material. Actual claim costs may differ from management's estimates.

#### ***Inventories***

Inventories are recorded at the lower of average cost or net realizable value. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, the markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effects on its gross margin.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### **Useful Lives of Depreciable Assets**

Management reviews the useful lives of depreciable assets including property, plant and equipment at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the property and equipment useful lives are provided in Note 5.

### **8. Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company has a bad debt reserve of \$25 in each of the 2013 and 2012 periods, to cover potential doubtful accounts.

### **9. Inventories**

Inventories consist of:

<i>December 31,</i>	2013	2012
Raw materials and work in progress (gross)	\$ 295	\$ 153
Inventory write-down	(2)	(3)
Raw materials and work in progress (net)	293	150
Finished goods (gross)	22	8
Inventory write-down	(10)	-
Finished goods (net)	12	8
Total	\$ 305	\$ 158

The cost of finished goods and component inventories recognized as expense due to write off of certain inventory items and included in cost of sales for the periods ended December 31, 2013 and 2012 was \$12 and \$3, respectively.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

### 10. Property and Equipment, Net

	Machinery and Equipment	Computer Equipment and Software	Furniture and Fixtures	Total
<b>Cost</b>				
Balance as of December 31, 2011	\$ 373	\$ 82	\$ 75	\$ 530
Additions	10	6	-	16
Balance as of December 31, 2012	383	88	75	546
Additions	25	18	-	43
<b>Balance as of December 31, 2013</b>	<b>\$ 408</b>	<b>\$ 106</b>	<b>\$ 75</b>	<b>\$ 589</b>
<b>Accumulated Depreciation</b>				
Balance as of December 31, 2011	\$ 269	\$ 70	\$ 70	\$ 409
Additions	39	6	2	47
Balance as of December 31, 2012	308	76	72	456
Additions	37	12	2	51
<b>Balance as of December 31, 2013</b>	<b>\$ 345</b>	<b>\$ 88</b>	<b>\$ 74</b>	<b>\$ 507</b>
<b>Net Book Value</b>				
At December 31, 2012	\$ 75	\$ 12	\$ 3	\$ 90
At December 31, 2013	\$ 63	\$ 18	\$ 1	\$ 82

Depreciation expense for the years ended December 31, 2013 and December 31, 2012 was \$51 and \$47, respectively, and is classified as selling, general and administrative expense in each period.

### 11. Investment in Legend Oil and Gas

In September 2011, ISE entered into an agreement to sell certain assets to Legend Energy Canada Ltd., a subsidiary of US based Legend Oil and Gas Ltd. (Legend). ISE assets upon completion of the Transaction with Wi2Wi included an investment in Legend representing partial consideration for the assets sold to Legend. ISE received 3,552,516 Legend shares, which are traded on the "Over the Counter Bulletin Board", and which were registered under the US Securities Act effective March 17, 2012. The number of shares was to be adjusted if the volume weighted average trading price of Legend shares were to fall below certain price thresholds at the end of certain periods, primarily within two months of the registration becoming effective. The agreement also granted ISE a PUT option at the original issue price of \$2.00 per share. As the trading price of Legend has fallen, the PUT has not been exercised.

At the end of the restriction period, May 17, 2012, ISE had received 21,350,247 additional shares under the trading price provision due to a sharp drop in the share price of Legend, (\$2.20 in November 2011, to \$0.28 on May 17, 2012) bringing the total number of shares owned by ISE of Legend to 24,902,763 or 32.5% of the outstanding shares. During 2012, 1,527,516 shares were sold for net proceeds of \$147. At December 31, 2012, ISE had 23,375,247 shares. There were no further sales subsequent to December 31, 2012. As of January 28, 2013, the date of the RTO transaction close, the 23,375,247 shares were revalued at \$0.078 per share resulting in a carrying value of \$1,977 inclusive of the proceeds of sale of shares. The additional shares received are subject to sales restrictions. At December 31, 2013 the trading price had fallen to \$0.0351 with a resultant value of \$820,471, plus

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

the cash generated on the sale of shares for a total value of \$971,745. The funds are being held by the Company's brokers and are not included in funds utilized by the Company for working capital purposes.

Under the terms of the Arrangement Agreement between Wi2Wi and ISE, the proceeds from the Legend shares are solely for the benefit of the existing shareholders of ISE. This was achieved as part of the RTO by issuing to the shareholders of ISE, one common share of the post-merger entity, and one preferred share. All proceeds from the sale of Legend shares will be for the benefit of the preference shareholders by way of dividend and accordingly, the Company has recorded a corresponding liability for the equivalent amounts owing to ISE preferred stock holders. Such liability is subject to adjustments based on a corresponding increase or decrease in the fair value of the Legend shares.

The investment is accounted for under the fair value method since the combined company will not have significant influence over Legend.

On May 1, 2013, the Company and Legend, reached an agreement to terminate the PUT right the Company had over the shares held by it in Legend. As a condition of the above, Legend is obligated to file a Form S-1 that will release the trading restriction on the 21,350,247 shares that were issued under the value adjustment conditions. Once such filing has been approved, all the Legend shares will become freely tradable. As of the date hereof, the shares are not yet freely tradable.

On January 7, 2014 Legend entered into a non-binding letter of intent with New Western Energy Corporation ("New Western Energy"), for New Western Energy to acquire all of the issued and outstanding common shares of Legend.

On January 24, 2014 New Western Energy announced that it has entered into a definitive merger agreement for the acquisition of Legend. Under the terms of the merger agreement, all shareholders of Legend will receive one share of New Western Energy common stock for each three shares of Legend common stock held based upon a value ascribed to each of the Legend shares and New Western Energy shares of \$0.09 and \$0.27, respectively.

## **12. Debt**

### ***Senior Bridge Loan Offering***

In May 2012 the Company commenced an offering of Senior Bridge Loans of up to \$2.0 million to qualified investors. Borrowings under the offering bear interest at 10% - 12% per annum, payable at the end of the six month term. In connection with the offering, the Company issued detachable warrants to purchase shares of the Company's common stock (see Note 16).

The Senior Bridge Loans were not originally convertible into common stock. However, as a condition of closing the Transaction which is discussed in Note 17, \$500 of promissory notes issued pursuant to the Senior Bridge Loan Facility were required to be converted into Wi2Wi Common Shares at a price of \$0.10 per share. Holders of \$525 of the Senior Bridge Loan Notes had their notes converted into 5,250,000 Wi2Wi common shares on December 19, 2012. During the three month period ended March 31, 2013, the \$480 of the loans outstanding at December 31, 2012 were repaid. At December 31, 2013, \$150 was outstanding.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### **Note Payable - International Sovereign Energy Corp**

In connection with the RTO transaction (see Note 3), ISE had advanced to the Company \$300 (Canadian dollars) in the form of a secured bridge loan on December 12, 2012. The loan bears interest at 12% per annum and is payable on the earlier of demand by ISE or January 30, 2013. The loan was secured by the assets of Wi2Wi, Inc. and a pledge of the common shares of Wi2Wi, Inc. held by Wi2Wi. The loan was forgiven upon the closing of the Plan of Arrangement on January 28, 2013 pursuant to which Wi2Wi completed the reverse takeover.

### **Note Payable – Norton Rose**

As a condition of closing of the Plan of Arrangement the Company converted \$500 of the amount owing to Norton Rose into an unsecured promissory note bearing interest at 10% per annum. The Company is currently negotiating an extension of the note.

### **Promissory notes**

The Company issued promissory notes in December 2013, amounting to \$510 bearing interest rate of 10% maturing on June 17, 2014. \$60 of the promissory notes is due to a director of the Company.

## **13. Related Parties**

A former Company director is a senior partner of Norton Rose Canada LLP (formerly Ogilvy Renault LLP). The Company has engaged Norton Rose for legal services and advice and continues to obtain services from that firm. The Company incurred expenses of \$450 and \$828 in the years ended December 31, 2013 and 2012, respectively. The Company owed Norton Rose \$857 (inclusive of the \$500,000 notes issued referred to in Note 12 above) and \$1,124 as of December 31, 2013 and 2012, respectively. Amounts of \$357 and \$1,124 are included in Accounts Payable at December 31, 2013 and 2012 respectively.

As a condition of approval of the Plan of Arrangement, an amount of \$500 was placed in Escrow, which will be released on the Company obtaining a Line of Credit exceeding \$2 million with a Commercial Bank or upon approval by the Toronto Stock Exchange. This amount was placed in Escrow by two Directors as loans bearing interest at the rate of 10% per annum. The director notes are due upon the earlier of the Company obtaining the \$2 million line of Line of Credit or 12 months from the issuance date of the note. . Interest, amounting to \$38 has been paid as of December 31, 2013. The escrow amounts were released on February 25, and March 27, 2014. See Note 25, Subsequent Events.

The Company incurred expenses related to travel by a director of \$79 and \$77 in the years ended December 31, 2013 and 2012, respectively. The Company owed the director \$0 and \$115 as of December 31, 2013 and 2012, respectively.

On March 7, 2013 a director of the company was appointed as the Interim Chief Financial Officer of the Company. He receives an honorarium of \$15 per month commencing March 2013 until such time that a full time Chief Financial Officer is appointed. \$150 of such honorarium is recorded in these financial statements for the year ended December 31, 2013, of which \$75 was unpaid at December 31, 2013. In addition a director advanced \$30 as a short term loan and \$20 of expenses, which sum was outstanding at December 31, 2013. This amount does not bear interest.

The total owing to related parties at December 31, 2013 and 2012 was \$125 and \$1,240 respectively.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

In December 2012, a director of the company advanced \$60 under a promissory note bearing an interest rate of 10%, and repayable on June 17, 2014 (Note 12).

### 14. Accrued Liabilities

Accrued liabilities consist of:

<i>December 31,</i>	<b>2013</b>	<b>2012</b>
Accrued compensation	\$ 396	\$ 330
Accrued interest	54	90
Accrual for legal proceeding (Note 15)	794	-
Other accrued expenses	351	94
	<b>\$ 1,595</b>	<b>\$ 514</b>

### 15. Commitments and Contingencies

#### ***Leases***

In 2005, the Company entered into a non cancelable building lease with an initial term of 27 months, and one two-year renewal option. The lease requires the Company to pay its pro-rata share of all executory costs such as building maintenance and insurance. In September 2011, the Company extended the lease and re-negotiated the lease terms. The company negotiated a further 3 year extension effective December 1, 2013 on essentially the same terms and conditions, except for the rental rate.

Rental expense for operating leases during the years ended December 31, 2013 and December 31, 2012 were \$105 and \$125, respectively.

The future minimum lease payments under the non cancelable operating lease and the extension thereof, expiring in November 2016, is as follows:

<b>Year</b>	<b>Amount</b>
2014	\$146
2015	\$150
2016	\$142
<b>Total</b>	<b>\$438</b>

#### ***Legal Proceedings***

A former company executive has asserted a claim of \$4,400 against certain Directors of the Company for damages incurred as a result of the claimed lost value of Plaintiff's investment, including Class B Convertible Preferred Shares. The defendants have filed a Defense and examinations on discovery have taken place and hearings on the merits of the Claim commenced on November 20, 2013.



# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

Judgment was rendered on January 28, 2014. Two of the directors were found liable and ordered to pay \$648 plus interests and additional indemnity as of July 6, 2010, totaling \$794. The action against the other two directors was dismissed. An appeal has been filed to overturn the Judgment and dismiss the action as a whole against all Defendants.

The Directors and Officers insurer ("D&O") has taken the position that this falls under an exclusion of the otherwise applicable policy. After assessing the probability of an unfavorable outcome, the Company determined that such unfavorable outcome was more likely than not and as such has accrued \$794 at December 31, 2013 with respect to this matter. The D&O insurer has also asserted that they may pursue the Company for legal fees incurred to date of \$314, which have not been accrued at December 31, 2013 given that the Company determined that the likelihood of payment is remote.

The Company received a request dated January 7, 2014 from Department of State Bureau of Securities Regulation, State of New Hampshire for documents pursuant to a complaint received in connection to an investment made in Wi2Wi Inc. The exact nature of the complaint is not known to the Company, but is related to period prior to the RTO transaction. The Company is complying with the request to produce documents requested.

From time to time, third parties have asserted, and may in the future assert claims against the company related to disputes in the normal course of business. At this time there are no such claims against the company which are expected to be material to the company's results of operations or financial condition.

### **16. Share Capital**

The Company considers the items included in the consolidated statements of changes in equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There have been no changes in the Company's definition of capital or capital management objectives during the periods ended December 31, 2013 and December 31, 2012.

#### ***Common Shares***

The authorized capital stock of the Company consists of an unlimited number of common shares. Holders of common shares are entitled to one vote for each share held on all matters submitted to a vote of shareholders.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

On June 30, 2013, 1,000,000 common shares were issued under the Private Placement program initiated by the Company in the current quarter. This program was for an initial offering of four units for 1,000,000 Common Shares at \$0.25 per share, plus warrants of 1,000,000 exercisable at \$0.45 per warrant and with a term of two years following issuance of such shares.

In addition, 63,926 stock options were exercised for proceeds of \$15.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

In September 2013 the Company issued 0.26 proportion of 1 unit (equal to 260,000 common shares) at an issue price of \$0.25, for gross proceeds of \$65. The issuance was combined with 260,000 common share warrants with an exercise price of \$0.45 and a term of three years.

There are 81,804,306 Common Shares in issue at December 31, 2013, and 80,480,380 (as converted basis) at December 31, 2012.

Cash received from shareholders in connection with purchase of the Company's shares of common stock is shown as Contributed Surplus if shares are issued at a later date. Upon issuance of shares, a reclassification is made to reduce the Contributed Surplus by a corresponding amount.

### ***Preferred Shares***

The Company had three classes of preferred shares (A, B and C), each authorized for an unlimited number of shares to be issued. Preferred shares are nonvoting and are convertible to common shares on a one for one basis. As a result of the RTO transaction (Note 3), all classes of preferred shares were canceled.

In addition, 16,096,084 Preferred Shares were issued to holders of common shares of ISE upon the closing of the Transaction. Each Preferred share will automatically convert into common shares on the date that is five years and one day after the date such preferred shares were issued, based on an exchange ratio of one-millionth (0.000001) of a common share for each Preferred Share converted, a total of 16 common shares. The holders of these preferred shares are entitled to receive as and when declared by the Board dividends in an amount equal to the aggregate of the net cash proceeds received by Wi2Wi from sale of Legend shares or any cash dividend, distribution or any other payment in respect of Legend shares.

## **17. Share-Based Payments and Warrants**

### ***Stock Option Plan***

At December 31, 2013 the Company had only one stock option plan, the Wi2Wi Corporation Stock Option Plan (the Plan).

Options are granted at an exercise price not less than the fair value of the Company's shares at the date of grant. Options granted to employees generally vest over periods of up to 48 months as determined by the Board of Directors and generally have a 12-month cliff vest followed by a 36-month vesting schedule. Options granted to the Company's directors and certain consultants vest fully upon issuance or vest over 1-2 years.

The Company's Stock Option Plan was amended following Board approval on May 30, 2012 to extend the expiration date on options up to a maximum of 10 years from the date of grant. All options outstanding as of May 30, 2012 for active option holders were extended by an additional three years to a total of 10 years from the date of grant. In addition, the Company also extended the exercise period for vested options of certain former employees and board members. The incremental fair value of the extension of maximum life and exercise period, calculated as the difference between the fair value of the modified instrument and that of the original instrument, was \$390. Of this, approximately \$340 related to fully vested stock options and therefore was recognized immediately in the Company's Statement of Losses. The remainder relates to options which are currently vesting and will be recognized over the remaining vesting period.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

The following table summarizes the stock option activity as of December 31, 2013 and 2012:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2011	52,100,000	\$ 0.06
Options granted	1,250,000	0.10
	(3,000,000)	0.06
Options forfeited or expired	(2,458,334)	0.06
Options outstanding at December 31, 2012	47,891,666	0.06
Converted at the date of the Plan Arrangement	10,496,698	0.30
ISE options at date of the Plan of Arrangement	1,535,000	0.68
Options granted	6,843,930	0.20
Options exercised	(63,926)	0.23
Options forfeited or expired	(915,000)	0.78
Options outstanding at December 31, 2013	17,896,702	\$ 0.27

The following table summarizes stock options outstanding and exercisable as of December 31, 2013:

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Options Exercisable
\$0.195	6,143,930	6.5	2,147,108
0.200	700,000	6.5	700,000
0.228	5,934,190	4.3	5,934,190
0.342	2,284,909	6.0	2,267,492
0.430	200,000	2.9	84,885
0.456	2,213,673	7.7	1,782,783
0.570	270,000	1.7	170,090
0.600	100,000	1.1	79,242
0.700	50,000	0.8	36,419
	17,896,702		13,209,209

The fair value of each employee option is estimated on the date of grant using the Black-Scholes option valuation model and expensed using a graded-method over the related service period. The Company estimates its expected stock price volatility using an average historical volatility of a group of similar publicly traded companies over a period equal to the expected term of options granted. The Company estimates the expected term of options granted as being the time from grant to vest plus the midpoint of the time from vest to option expiration. The risk-free interest rate for periods within the contractual life of the option is based on U.S. Treasury zero-coupon rates for the estimated holding period.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

The value of the Company's stock options granted under its stock option plan granted during the years ended December 31, 2013 and 2012 was estimated at the date of grant using the following weighted-average assumptions:

	2013	2012
Expected life range	3.08-6.08 years	3.08-6.08 years
Risk-free interest rate	0.36-1.09%	0.51-1.3%
Volatility range	44% - 52%	41% - 50%
Dividend yield	-	-

Share-based compensation expense is charged to research and development and selling, general and administrative, as follows:

<i>December 31,</i>	2013	2012
Research and development	\$ 37	\$ 47
Selling, general and administrative	398	529
	\$ 435	\$ 576

### Warrants

As a condition of closing the merger, a holder of Wi2Wi warrants agreed to a modification to the terms of its 1,450,000 (pre amalgamation) warrants whereby it agreed to waive the down round protection feature. The warrants as originally issued contained a provision whereby the exercise price was the lower of \$0.10 (\$0.075 for one of the 2010 issuances) or the issuance price of the next equity financing round. Due to this down round protection feature, the warrants were classified as liabilities at December 31, 2012. Upon the modification of terms, the fair value of the 1,450,000 warrants, calculated as \$67, was reclassified from liabilities to shareholders' equity.

The following table summarizes the warrants issued by the Company as of December 31, 2013:

	Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2011	1,498,000	\$ 0.13
Warrants issued	5,775,000	0.15
Warrants expired	(48,000)	1.25
Warrants outstanding at December 31, 2012	7,225,000	\$ 0.14
Conversion on Completion of Plan of Arrangement	1,583,545	0.63
Issuance of Broker Warrants	876,704	0.57
Issuance of warrants on Share issue	1,260,000	0.45
Warrants expired	(526,021)	0.68
<b>Warrants outstanding at December 31, 2013</b>	<b>3,194,228</b>	<b>\$ 0.56</b>

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

The Company issued 876,704 warrants issued in connection with RTO transaction, at an exercise price of \$0.57 per share, which vest immediately and expire 3 years from the date of issuance. The fair value of \$131 was estimated on the respective date of grant using the Black-Scholes valuation model and recorded within general and administrative expense.

The Company issued 1,260,000 warrants in connection with the issuance of common stock, at an exercise price of \$0.45 per share. The warrants vest immediately and expire three years from the date of issuance. The fair value of \$22 was estimated on the respective date of grant using the Black-Scholes valuation model and recorded as a reduction of the common stock proceeds.

The value of the warrants issued during the period ended December 31, 2013 was estimated at the date of issuance using the following weighted-average assumptions:

Expected life	3 years
Risk-free interest rate	0.45 – 0.50%
Volatility	44-50%
Dividend yield	-

Summarized information about warrants as of December 31, 2013 is as follows:

Exercise Prices	Warrants Outstanding	Weighted Average Remaining Contractual Life	Warrants Exercisable
\$0.34	87,670	4.25	87,670
0.45	1,000,000	1.50	1,000,000
0.45	260,000	2.75	260,000
0.46	65,753	4.25	65,753
0.46	164,382	5.25	164,382
0.57	876,704	2.25	876,704
0.68	191,779	0.05	191,779
0.68	54,794	0.15	54,794
0.68	383,558	0.25	383,558
0.68	109,588	0.45	109,588
	3,194,228	1.50	3,194,228

### 18. Loss Per Share

The basic and diluted loss per share has been calculated based on 80,621,453 and 61,457,473 weighted average number of common shares outstanding as of December 31, 2013 and 2012, respectively. Shares that were not included in the diluted loss per share because they are antidilutive were 21,090,930 shares and 12,080,243 shares for 2013 and 2012, respectively.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

### 19. Expenses by Nature

December 31,	2013	2012
Compensation	\$ 2,809	\$ 2,672
Depreciation and amortization	52	47
Facility related expenses	144	160
Professional and consulting services	757	1,975
Legal proceeding	794	-
RTO	690	-
Share listing expense	2,987	-
Other costs	516	209
	\$ 8,749	\$ 5,063

### 20. Income Taxes

There is no tax provision recorded for the years ended December 31, 2013 and 2012, respectively.

The total income tax expense differs from the amounts computed by applying the US statutory federal income tax rate of 34% as follows:

December 31,	2013	2012
Computed tax expense (benefit)	\$ (2,264)	\$ (1,401)
Nondeductible items and other	3	1
Acquisition costs	913	342
State taxes, net of federal benefit	(173)	(181)
Foreign rate differential	378	-
True-ups	293	76
Credits	202	(94)
Valuation allowance	648	1,257
	\$ -	\$ -

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities are as follows:

December 31,	2013	2012
Accruals and reserves	\$ 352	\$ 215
Share-based compensation	457	797
Net operating loss and research and development credit carryforwards	8,905	8,061
Total deferred tax assets	9,714	9,073
Deferred taxes not recognized	(9,709)	(9,061)
Total deferred tax assets net of write-downs	5	12
Total deferred tax liabilities	(5)	(12)
Net deferred tax assets	\$ -	\$ -

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

In assessing the realizability of future tax assets, management considers whether it is probable that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible or includible in taxable income.

Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical losses and projections for future taxable income over the periods to which the deferred tax assets are applicable, management believes it is not more likely than not the Company will realize the benefits of these deductible differences, therefore a valuation allowance is established at 100%.

The Company's total gross unrecognized tax benefits are as follows:

<i>December 31,</i>	<b>2013</b>	<b>2012</b>
<b>Balance at beginning of period</b>	\$ -	\$ -
Tax positions related to current year:		
Additions	13	-
Tax positions related to prior year:		
Additions	267	-
<b>Balance at ending of period</b>	<b>\$ 280</b>	<b>\$ -</b>

At December 31, 2013, the Company's total gross unrecognized tax benefits were \$280. If recognized, none of the gross unrecognized tax benefit would affect the effective tax rate.

The Company had U.S. federal and state net operating loss (NOL) carryforwards of approximately \$20,183 and \$22,738, respectively, available to offset future taxable income at December 31, 2013, and approximately \$18,217 and \$18,990, respectively, at December 31, 2012. The federal NOL carryforwards will expire beginning 2027, if not utilized. The state NOL carryforwards will expire beginning 2017, if not utilized.

In addition, the Company had federal and state research and experimental credit (R&D credit) carryforwards of approximately \$522 and \$411, respectively, available to offset future income tax liabilities at December 31, 2013, and approximately \$505 and \$385, respectively, at December 31, 2012. The federal R&D credit carryforwards expire beginning 2026 and the state R&D credit can be carried forward indefinitely.

Federal and state tax laws impose substantial restrictions on the utilization of NOL and R&D credit carryforwards in the event of an "ownership change" for tax purposes, as defined in IRC Section 382. The Company has not performed an ownership change analysis pursuant to Section 382. Therefore, the Company's future utilization of NOL and R&D credit carryforward may be limited.

### 21. Business Risks and Concentrations

The main risks that could adversely affect the company's financial assets, liabilities or future cash flows are liquidity risk and credit risk.

# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

### **Liquidity Risk**

The Company has significant liquidity risk as it has experienced recurring losses and had working capital deficits at December 31, 2013 and 2012 of \$2,452 and \$2,634, respectively. These matters, among others, raise substantial doubt about the ability of the Company to continue in existence as a going concern. See Note 4 for further discussion.

### **Credit Risk**

The Company had significant exposure to several customers as of December 31, 2013 and December 31, 2012, as follows:

Customer	December 31, 2013		December 31, 2012	
	Revenue %	AR %	Revenue %	AR %
A	29%	60%	33%	26%
B	25%	3%	19%	45%
C	20%	4%	6%	-%
D	13%	20%	11%	20%

The Company has zero in outstanding receivables over 90 days at December 31, 2013 and 2012, respectively.

## **22. Fair Value of Financial Assets and Liabilities**

The Company's financial instruments as at December 31, 2013 include cash, accounts receivable, bank borrowings, accounts payable and warrant liability. With the exception of the warrant liability, the carrying values of these financial instruments approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. The fair value of amounts due to related parties cannot be determined due to the related party nature of the transactions.

When applicable, the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities,

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of the warrant liability is determined quarterly based on certain unobservable inputs classified as a Level 3 measurement in the fair value hierarchy (see Note 13).



# Wi2Wi Corporation

## Notes to Consolidated Financial Statements

*(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

### 23. Key Management Personnel Compensation

<i>December 31,</i>	2013	2012
Director fees, officer compensation	\$ 846	\$ 930
Benefits and other personnel costs	80	71
Share based payments	101	399
	<b>\$ 1,026</b>	<b>\$ 1,400</b>

### 24. Subsequent Events

The Company announced on February 27, 2014 closing of first tranche of its non-brokered private placement Offering, issuing 2,175,000 units at a price of CDN\$0.20 per Unit. On April 30, 2014, the Company received acceptance for filing documentation, the final number of shares issued amounted to 2,961,452, along with 1,480,726 warrants attached to those shares, for gross proceeds of CDN\$592.